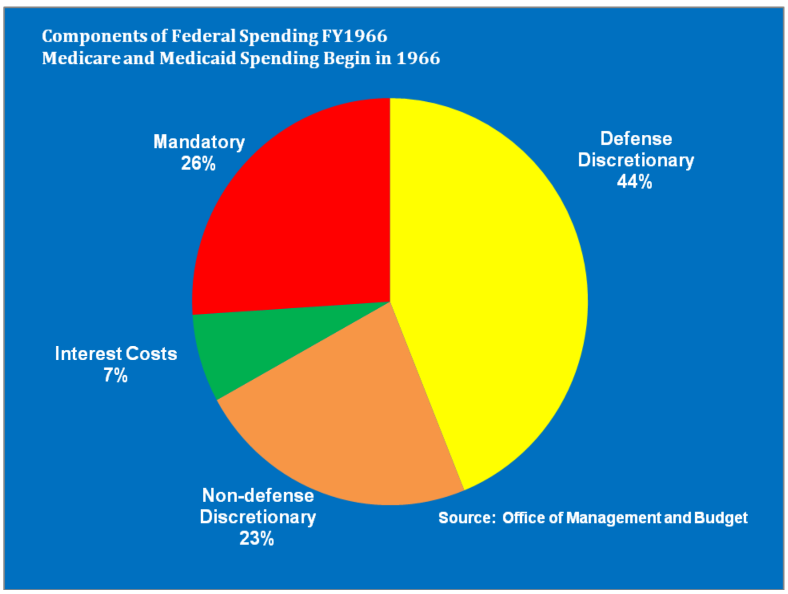
BENNETT ADDRESSES NEED FOR SOCIAL SECURITY REFORM

February 12, 2009

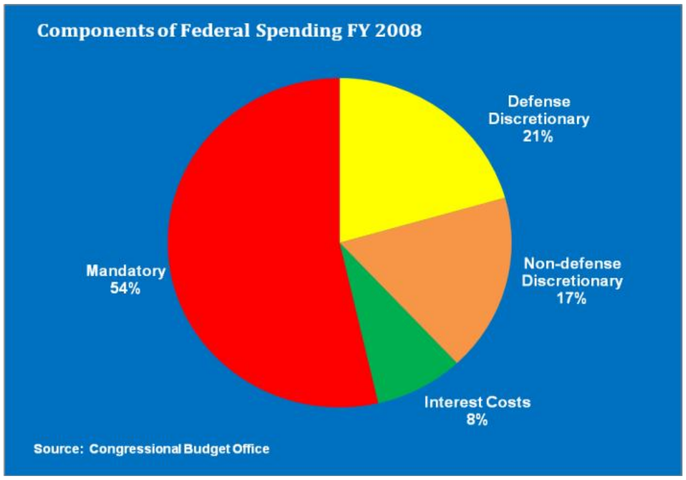
Mr. President, we are awaiting the conference report on the stimulus package. The papers and the airways are full of the fact this will be the largest expenditure we have made, peacetime, perhaps in our history. I think it well, as we wait for the details of the package, for us to pause for a moment to take a longer look beyond the recession, beyond the financial circumstances we're facing at the moment and look down the road at what we are facing as a nation as a whole so I'm going to make a historic pattern today and then introduce at the end what I feel is necessary for us to deal with our financial problems.

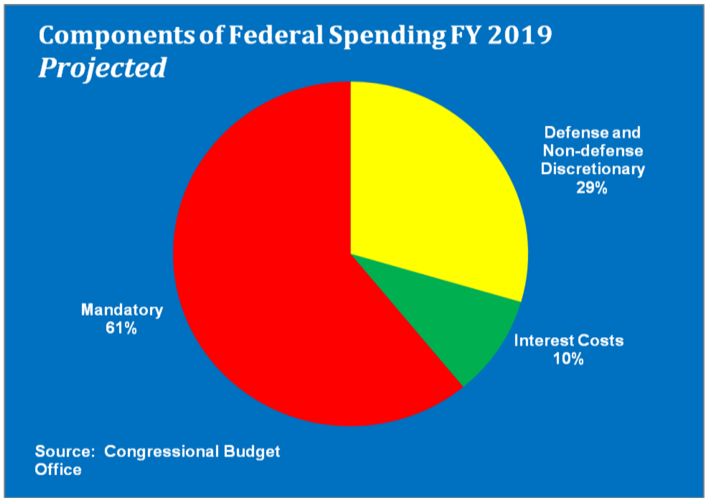
Let us go back a moment in history, Mr. President. to the year 1966. Why do I pick 1966? Because that was the year that we significantly expanded the entitlement spending in the United States. That was the year we adopted Medicare as a federal program.



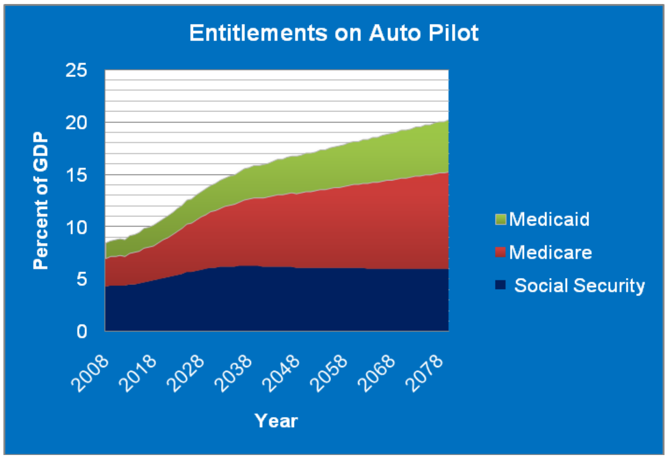
As you see from the chart, at that time the mandatory spending constituted 26% of the of the budget. By "mandatory" I mean spending that we have to do. People are entitled to receive that money whether we have the money or not. It's mandatory under the law. And the largest portion of the mandatory spending in 1966 was Social Security. We were paying roughly 7% of our budget for interest. We had non-defense discretionary spending, which was 23%. And the big item -- the big-ticket item that dominated the budget in 1966 was defense. It constituted 44% of federal spending in 1966.

Let's see what has happened since that time. Let's see where we are today. And in fiscal 2008, this is where we are. The mandatory spending has grown from 26% to 54%. Interest costs roughly the same. They were 7%. Now they're 8%. Nondiscretionary spending has shrunk to 17%. Defense discretionary, even though we are in wartime, is 21%. It is clear that the mandatory spending is taking over control of the federal budget. And interest costs, of course, are mandatory. We owe those interest costs. So you add the two together -- 54% and 8% -- and you get 62% of the federal budget beyond the control of the Congress. That is, when we passed the appropriations bills, when we make our decisions what to spend money for, we are spending money in the minority, where a 62% majority is out of our control. When you take away the defense spending and assume that has a semi mandatory aspect to it and put defense spending in the mix, that means the congress only has control of 17% of the budget; an amazing change in the roughly 40 years from 1966 until today.

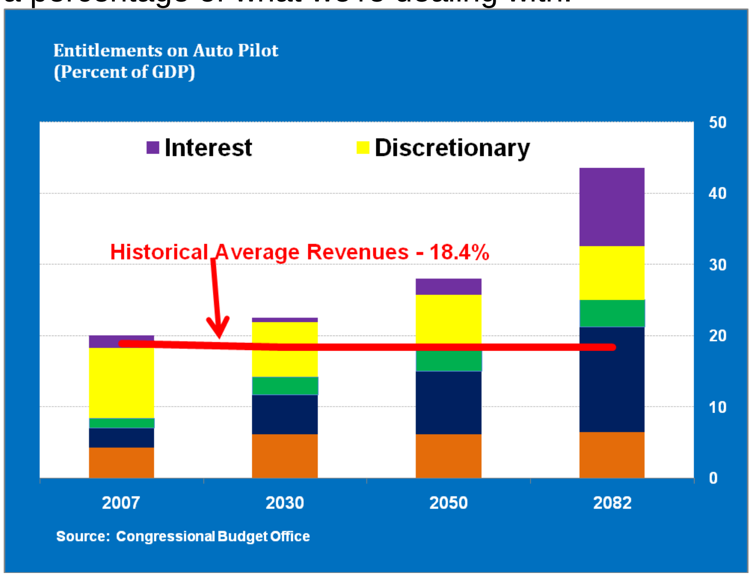




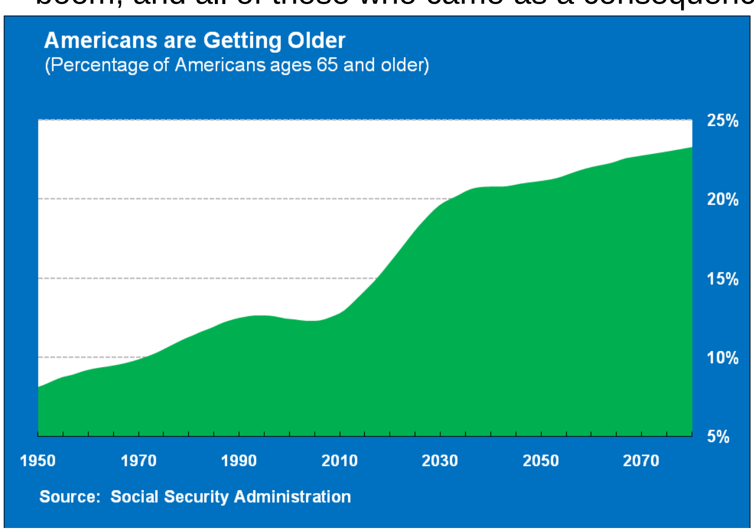
What does the future look like? I must make the point that every approximate we make around here is wrong. Every projection is an educated guess. But the educated guess of what will happen 10 years from now is that mandatory spending will have grown to 61% and interest costs to 10%. That's 71%. The congressional budget office won't make a guess as to the divide between defense and non-defense discretionary spending, so all discretionary spending will be 29%, if we divide it in half, as it has historically been. That means the congress just 10 years from now will only control 10% of the federal budget. All of the rest of it will be on automatic pilot. That is a startling thing to look forward to.



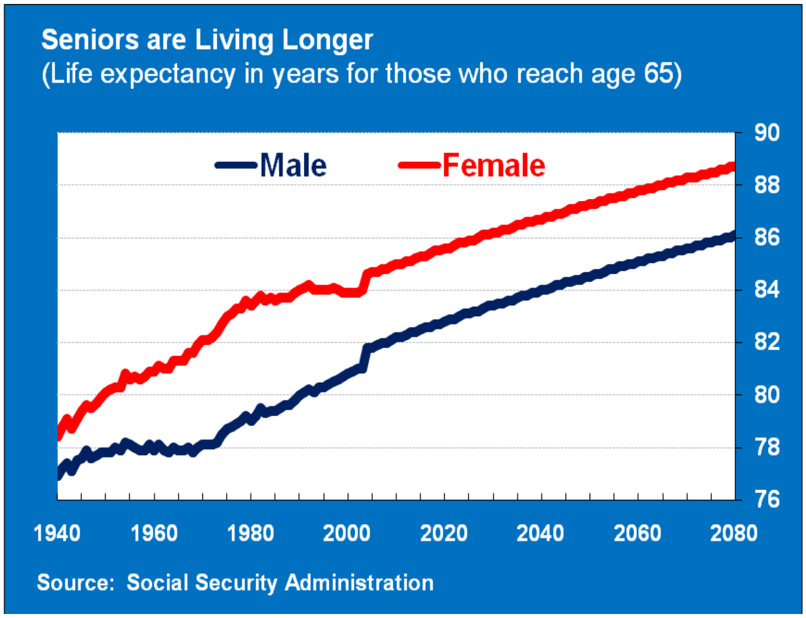
So, as we're talking about the stimulus packages, we need to pause, as I said, and pay a little attention to the entitlement spending that will go on and the kind of spending that will be built up, and we're adding to that with this stimulus package. Now, here it is in the projections of what it will be, and it constitutes a wave. Indeed, it has been referred to almost as a tsunami of spending. And it's broken down into the three primary sources of mandatory spending, the three biggest entitlements. At the bottom is the one that is the biggest now, and that is Social Security. But Social Security does not grow as fast as the next one, which is Medicare. And then on top of that is Medicaid. And one can see that this tsunami of spending will take our mandatory spending, which at the moment is less than 10% of GDP, up to more than 20% of GDP. Let me put up another chart that illustrates the same point in a slightly different way. You have the same entitlements, and we have added in this chart discretionary spending. And the solid line across here is the average revenue of the federal government. It's recorded in percentage of GDP and we have historically had a revenue average of 18.4% of GDP and as you can see in 2007, the expenditures were slightly above that line. And the largest portion of the expenditures were the combination of defense and non-defense discretionary spending. But the projection, as you go out, you see that at some point the entitlements will take over every dime that we take in, and the largest portion of it will be Medicare. Social Security will still be there. Medicaid will still be there. And discretionary spending will shrink even further, as a percentage of what we're dealing with.



Why is this happening? Is this some kind of a plot that somebody is involved in? No. This is a result of the demographic changes that are occurring in our country, and this chart summarizes it with the headline "Americans are Getting Older." If you go back to 1950, the percentage of Americans who were age 65 or older was about 7%. Taking it here at the beginning, it grew -- the percentage at a relatively slow level, and then actually began to shrink. Why did it begin to shrink of the percentage of Americans 65 and over? This is the reflection of the great depression. People had fewer children in the great depression. So it follows that 65 years later, there were fewer people who were of retirement age. But following the great depression, you had the second World War and then when people came home from war, you had what historians refer to as the baby boom, and all of those who came as a consequence of that are called "the boomers."

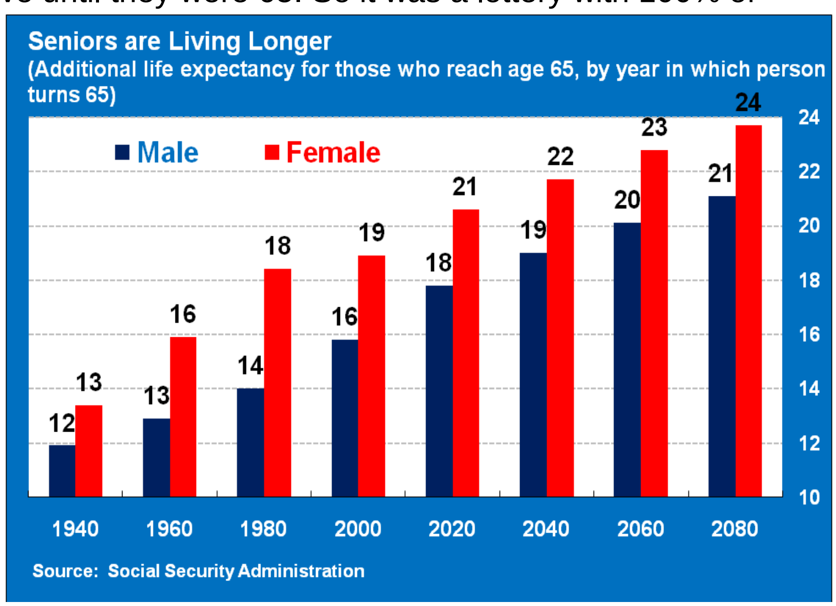


And starting in 2008, which is now history, the line started upward in a dramatic fashion. And in the next 20 years we are going to see something happen that has never happened in American history before. In the next 20 years, the percentage of Americans who are over 65 is going to double. That's what's driving all of the numbers that I put up before, all of the changes in entitlement spending. And these people are already born. This is not a projection that depends on guesses. This is something that we can be sure of because the demographics of these folks are already there. Now, the projection is that 20 years from now when the baby boomers have finished retiring, the rate of increase will slow down again and go back to the somewhat gentle rate that it was before we got into this situation. But that is the reality that we are dealing with. In the next 20 years, the percentage of Americans who are 65 or over is going to double.



Let's look at some of the detail behind these demographics. Seniors are living longer. Not only are we going to get more of them, but they're living longer, and that's why that trend is not going to turn down once the baby boomers have been absorbed. Let me go back to 1940. After you reach 65 in 1940, if you're a male, your life expectancies was another 12 years; female, 13. And so on, the chart shows how it has changed. Now, if you're male and you reach 65, your life expectancy is another 16 years. And if you're female, it's another 19 years. And just roughly a short decade away, a male will go to 18 and female to 21. That means that all of the entitlement programs that are geared towards our senior citizens are going to be tapped into for many more years than was the case when they were put in place.

If we go back to the history of Social Security, we realize that Social Security was something of a lottery. That is, when Social Security started in the 1930's, roughly half of American workers did not survive until they were 65. So it was a lottery with 100% of the people paying in and only 50% taking anything out. Those who paid in got nothing for having done so.

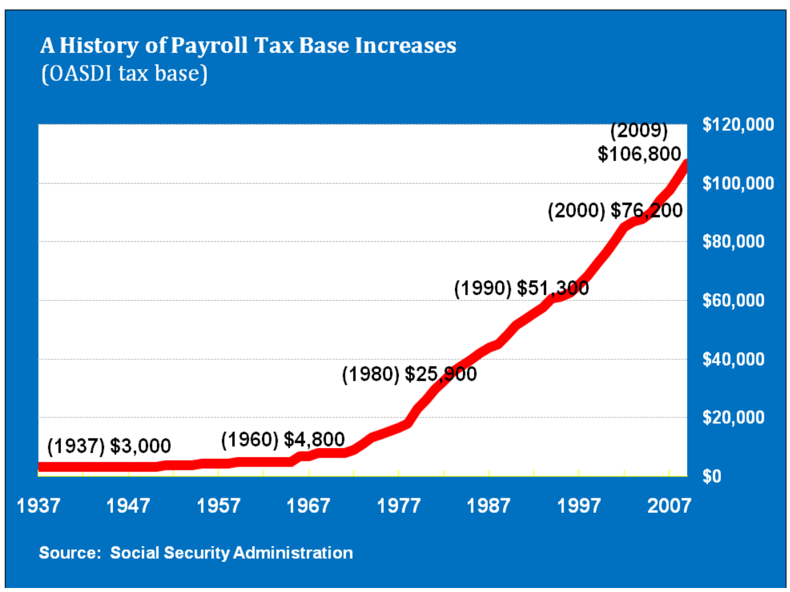


All right, now you see they are living longer. Today something like 75% or 80% of the workers who joined the workforce at age 20 are still alive at 65, so there's -- the lottery doesn't work anymore. Instead of half of the people paying into the lottery, not getting anything out, you've got more than three-quarters of the people who pay into the lottery getting something out, and then once they get it, they get it for longer. The life expectancy of Americans is going up.

As was shown in the last chart, this shows the trend line for males and females. Again, in 1940, the life expectancy of Americans who had reached 65 was -- for males was about 75. When we get out into the future, it'll be 86. Put those two facts together. More people survive to 65, and then more people who get into the pool over 65 stay there for more years.

All of this means that the financial structure of Social Security is simply unsustainable. Social Security cannot deal with these demographic changes. This is not a Democratic plot or a Republican plot. These are the demographics of the reality that Americans are healthier, living longer and surviving to a older age. So you get this reality to the Social Security situation. We go to the next chart that shows how Social Security really works in terms of the lottery that I was talking about. In 1945, the program was still in its infancy, so this is a bit of a distortion. There were 42 people paying into the program for every one retiree drawing out. As the program matured and more and more of the workers retired, this number, very appropriately, came down. But by 1950 there were still 17 workers paying into the program for every one retiree drawing out. Today there are three workers paying into the program for every one drawing out. And with the demographic realities that I described in the previous charts, we are looking at a time when there will be two workers for every retiree. That means in the retiree is going to take out $1,000 a month, each worker has to be putting in $500 a month in order to make that happen. And for a long period of time this is how we have dealt with this demographic change throughout our history. We have dealt with it by raising taxes every step along the way, as the number of workers to retirees has gone down, the amount of taxes that every worker pays has gone up.

Here's the history of the payroll tax increases. In 1937, you paid taxes on $3,000, and that was it. Now it's $106,000. It has gone up and up all the way through. This is unsustainable. You cannot continue to deal with the demographic changes in Social Security by simply ratcheting up the taxes. Be there for our children and our grandchildren. There is a reported survey. I've seen it many, many places, but I've never seen the source that says that a poll shows that among the young people in America, more believe in the existence of UFO's than believe that Social Security will be available for them when they retire.



I have grandmothers come up to me spontaneously on the streets in Utah and tell me how concerned they are that their children and grandchildren will not have Social Security. I have people entering the workforce who come to me and say, "Senator, my biggest question is will Social Security be there for me." And increasingly, people are sure that it is not. The legislation that I introduce today, madam president, is geared to make sure that Social Security will be there for our children and our grandchildren. And that it will be there at roughly the same level it is for us. That is, they will not have to accept significantly less than we accept in order to make this program work. How do we do that in the face of this demographic challenge? How is that possible?

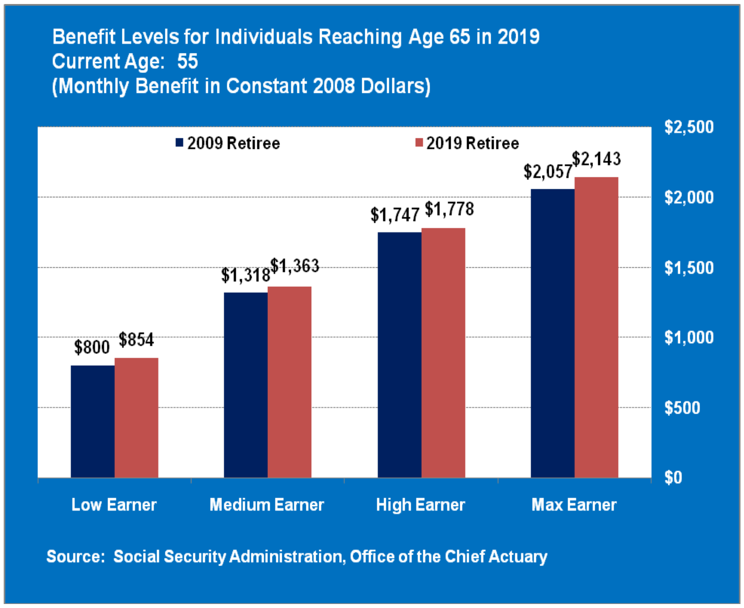
Well, one of our colleagues here in the Senate for many years -- Senator Pat Moynihan of New York -- had the answer. Senator Moynihan looked back on how Social Security benefits were calculated, and he said, "You know, we calculate the increase in Social Security benefits on the wrong base." I don't want to get too technical here. But the term that applies is wage-based increases for cost of living. And Senator Moynihan pointed out the cost of living is not going up as rapidly as wages are. So if we would just adjust the base from wage-based to cost-of-living based, a true cost-of-living base. That means we would slow down the rate of growth and benefits. And in slowing down the rate of growth and benefits in that fashion, we would solve the problem. It would become solvent. That's fine.

But what if you are someone who depends upon Social Security as your sole source of retirement? It was never intended that that was be the case when it was put in place, but it has become that way for too many Americans. If they were to give up the benefit that comes from an overpayment -- that is the form of wage-based adjustments -- to go to the true payment of cost of increasing, which is the cost of the consumer price index, it would hurt them. They would give up significant benefits.

On the other hand, if you look at people like Warren Buffet and Oprah Winfrey, they don't really need to have Social Security go beyond the true increase in cost of living. So the solution is to say for those who are at the bottom of the economic ladder, we keep Social Security benefits exactly as they are. For Warren Buffet and Oprah Winfrey and those who are at the exact top end of the economic ladder, we take Senator Moynihan's idea, and we put it in place and say you will have to struggle by with a Social Security plan based on the actual increase in cost of living rather than an inflated increase in cost of living. What about those of us who are in between the people at the bottom and the people at the very top?

For those of us who fall in between those two areas, we get a mix, a blend, if you will, of wage-based or cost-of-living based. It's called progressive indexing. All the details are available in hearings that have been held on this subject which I chaired when I was chairman of the Joint Economic Committee and in other publications that have addressed this question. What will this do to the actual benefits of the people in Social Security? We have asked the Social Security Administration to tell us. Now, again, these are projections. And as projections, they are subject to some kind of challenge, but they are the best analysis that people can make. And we start out with people who are currently 55. That is, only ten years away from the 65 retirement date, although Social Security by the time they get there will be at 67. But, what's going to happen to them under the bill that I'm introducing?

This, in the dark barks is what a 2009 retiree will get, and the red bar is what a 2019 retiree will get. And these are in constant dollars. That is, an adjustment has been made for inflation. And you see that in every instance the 2019 retiree will get more than the 2009 retiree. Now, this is for the low earner. These are the people who are at the bottom third of our economic structure than the medium earner and the high earner.

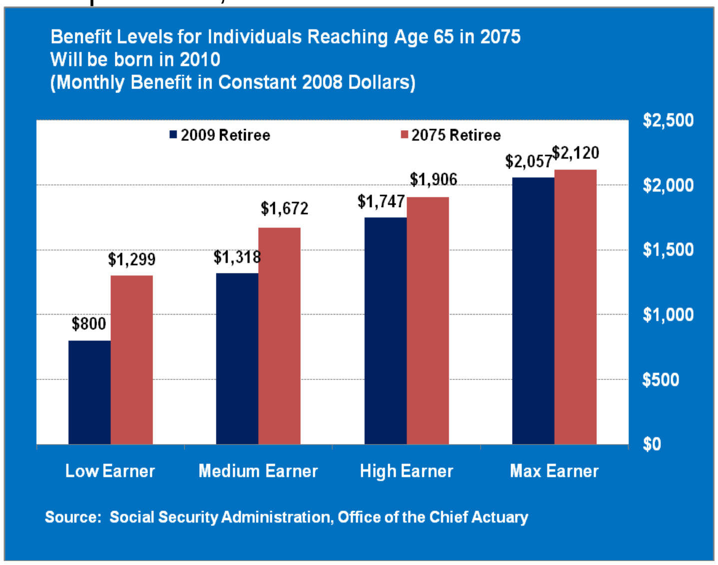


So, you see, in every case people are made whole and protected. This last chart is for the max earner, the maximum earner, which, quite frankly, probably doesn't exist. That would assume that somebody entered the workforce at age 20, earned $106,000 a year the first year and continued to earn that level going on up through his entire career. The maximum he could possibly draw from Social Security, that would be that level. But, 82% of Americans fall in these two categories. So, for someone age 55, under this bill, they have -- they come out just fine. They have nothing they should worry about.

What about somebody who's 45, a little bit younger? What happens to them? Again, these are the estimates made by the Social Security Administration. Once again, the low earners, they do better under the Bennett plan. The medium earners, they do better under the Bennett plan. The high earners are virtually the same under the Bennett plan. We can make the proposal -- pardon me. Make the statement that we are going to hold everybody harmless.

We will adjust Social Security in a way that makes it solvent while at the same time preserving the same level of benefits that we have -- those of us who are currently drawing Social Security benefits. We can see that the same level of benefits would be available to those who come after us. We will reach out all the way to 2075 and see what the estimates are from the Social Security Administration. These are people who will be born in 2010. It's a little hard to make a projection as to how much money they will have when they don't -- they aren't alive yet. But the projections are made.

Once again, under the bill that I am introducing today, in 2075 the people at the bottom will do substantially better, comparing today's benefit of $800 to the potential benefit of nearly $1,300, because they are the ones that are held harmless in the way Social Security benefits are currently calculated. So, they will get a significant position of significantly greater benefit than they do under current law. The medium earner, well, they also will do better. The high earner also will do better. Even the max earner will come out essentially the same. Now, I can't guarantee these numbers. You can't guarantee with any certainty what the numbers are going to be in 2075. But the fact that the Social Security Administration, looking over a past version of this bill that I've introduced, has said everyone can look forward with some certainty -- these are my description of it, not their words.



Everyone can look forward with some certainty to seeing that his or her Social Security benefits will be roughly the same as the benefits that are being paid to retirees today. And the system will be solvent, not requiring any increase in taxes throughout the life of the system. We've had a lot of debates about Social Security and we've had a lot of proposals about Social Security. To my knowledge, this is the only one that can say the two things I've just said. That is, that everybody's benefit, wherever they fall on the economic continuum, will be held at roughly the same level as today's benefit -- in the case of the low earners, substantially better -- and it can be done without raising any taxes. That's why we call this the Social Security Solvency Act.

Let me go back to the charts I put up in the beginning to stress once again the importance of bringing entitlements under control. This is where we were in 1966 before entitlements started to get out of control. We in the congress controlled 23% of the budget in nondefense discretionary spending and 44% of the budget in defense spending. So we controlled the majority. Today we have shrunk to the point where we control only 17% of the federal budget with 21% for defense spending, and the mandatory and interest costs have grown to a majority, a significant majority. And looking ahead just ten years, if we don't do something about the entitlements, the mandatory spending will be 61%, 71% when you add interest costs. And if you divide defense and nondefense in this historic pattern, we will only have 15% of the entire federal budget under our control for nondefense discretionary spending. We're talking about the largest single expenditure in our peacetime history.

As we adopt it, we should do so against the backdrop of what we're looking at in mandatory spending down the road and realize that if we are going to be able to afford this stimulus package, we have to have the courage to tackle mandatory spending at the same time. I yield the floor.